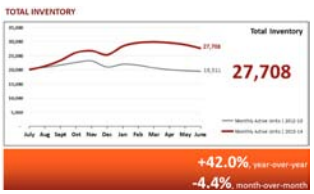
The Valley real estate market in July 2014 — Everything is relative

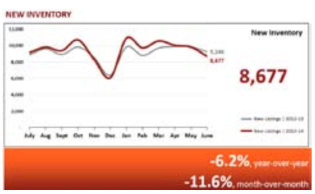
by Ron LaMee, AAR Senior VP of Research and Member Value

This month's look at ARMLS's July STAT Report (http://www.armls.com/statistics/stat-library) shows little change from last month. Since the market is relatively unchanged, we are going to take the opportunity to go a little deeper into the statistics for a change. Individual statistics are like isolated pieces of a puzzle: they often don't make much sense without the rest of the puzzle around them. The object of this month's articles is to get you thinking about how market statistics fit together to make a complete picture.

As you begin looking at the STAT Report, it is important to review several figures and try to find possible explanations—I call these "stories." We will start by sifting through some stats related to market supply and look for our stories among the numbers. Some indicators of supply in the STAT report include Total Inventory, New Inventory and Months Supply of Inventory (MSI).



In June, Total Inventory is following the usual summer pattern and drifting lower, at 4% less than last month. With seasonal figures like inventory, it is important to look at the previous year figures, where we see there are over 8,000 more total listings than in 2013. While that is a significant (42%) increase year-over-year, in the context of historical totals, the overall inventory is about normal.



New Inventory is also decreasing: the number of new listings added to the inventory pool in June 2014 is slightly lower than last month <u>and</u> lower than a year ago. Make a note: both new and total inventory are edging downward.

Months Supply of Inventory (MSI) relates the overall inventory to the current rate of sales, so it also hints at demand. At 3.84, the MSI for June is about 45 days greater than a year ago. Something must have been different last year at this time. Does it have to do with the increase in inventory from last year?

Now we start looking for stories by asking questions. If new listings are coming in at about the same rate as last year, yet overall listings are higher than last year, what explains the increase? For one thing, higher MSI suggests that listings are staying on the system for a longer time. Another possibility is that sales volume is down. Is that happening? We'll see when we look at demand.

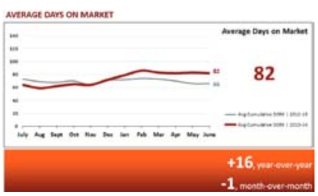
Here are some comments you might convey to your clients about supply in this market:

- Supply is good. Inventory is about normal and offers buyers more choices than they had in 2013. Sellers have a lot more competition than this time last year.
- A more "normal" MSI is around three months, so we currently have about 10-15 days more supply than ideal. That is not a lot, but probably indicates something is different with demand.

Supply alone does not tell us much about the market, since it focuses on sellers' stories. Next, we'll look for buyers' stories in the demand side. Some statistical indicators of demand in STAT are Monthly Sales and Average Days on Market. Previously, we looked at Months Supply of Inventory (MSI), which also has a demand component.

In June, Monthly Sales follows a typical summer slowing trend at another 3% lower than the previous month.. After last month's 21% year-over-year decrease, sales are down again 12% from the same period last year. We now begin to suspect that demand is lower than last year.

Looking again at Months Supply of Inventory (MSI): remember that it is a ratio of the overall inventory over the current monthly rate of sales. Since June's MSI is higher than the long-term average, we have to wonder if the higher supply accounts for the difference. With overall inventory at historical averages and new listings coming in at numbers similar to last year's, it is looking more and more like lower demand is impacting Monthly Sales figures and MSI.



Average Days on Market (DOM) is the length of time from listing to close for the month's sales. While actually a day lower in June than May, it is still taking 17 days (or 25%) longer to close in 2014 than in 2013. Why? Let's look for "stories." One explanation is that REALTORS® must market properties for two to three weeks longer to find a buyer, which hints at lower demand.

But wait… could the longer time on market for 2014 sales be explained by transactions being more complicated, making the process take longer? Where could we look for more information? Perhaps it is Distressed Sales. We have heard that banks and agents are working together more smoothly now, but distressed sales still tend to require more time.

However, we see that Distressed Sales are 59% lower than last year and probably aren't a factor. Lower demand still looks like the best explanation for all these figures.

Let's do a quick recap: sales are lower year-over-year, inventory is moving at a slower pace and there doesn't seem to be any other good explanation why Days on Market should be higher than last year. Everything points to lower demand. Here are some comments you might convey to your clients about demand in this market:

- Demand is lower than historical levels expected in a balanced market. With good inventory, buyers seem to have an advantage. Some clues to the extent of that advantage could be revealed when we look at Sales Prices and ARMLS's Sales Price Forecast . If we see stable (flat) selling prices that would indicate that sellers aren't overly concerned about demand and are holding out for their asking prices.

- Lower demand means individual buyers face less competition for any given property, but that does not mean that desirable homes won't get multiple offers and move quickly. As we'll see, buyers don't enjoy enough advantage to play lowball games with sellers.
- That said, sellers need to know that buyers have an edge in the current market, so unless they are willing to sit on their properties, they need to price correctly.

Last, but not least, the final element is pricing, which can help validate our earlier conclusions or lead us to new ones. The STAT indicators to examine for pricing clues all have "price" in their names: Sales Prices, New List Prices and ARMLS's Sales Price Forecast.

A brief glance at the three thumbnail charts below will tell you that nothing much exciting is happening with prices. Pretty flat and boring, right? However, "boring" actually tells us a great deal. First, a quick note about average price versus median price. Both are useful measures of market price central points, but I prefer to use median prices as they tend to be less affected by extreme highs or lows at the opposite ends of the market.

The Sales Prices chart shows that the median price (orange figures in the graph) of homes closed in June has increased 8% year over year. Depending on who you consult, annual, long term increases in home prices have been 3-4%. While somewhat flat, actual sales prices seem to be increasing at a rate near historical averages.

New List Prices indicate what sellers hope to get for their properties. The percentage increases from last year are interesting, but more revealing is the difference between what sellers are asking in June of 2014 ($220,000) compared to what homes actually sold for ($195,000). More about that later.

ARMLS's Sales Price Forecast is a unique combination of several figures to arrive at a forecast of where prices are going. Predicted for July, median price forecast is slightly higher, while average price is slightly lower. This suggest we may see some price decreases at the extreme upper end of the market.

Here are some comments you can convey to your clients about the current Phoenix area market:

- Prices have not shown much volatility in recent times. After the market recovery in 2011 and 2012, prices have been relatively stable for the last year. Since prices appear to align with trend lines plotted over the past 50 years, it is reasonable to expect modest price increases to continue. Keep your eye on the Sales Price Forecast for next month, though.
- The June Sales Prices median is $195,000 while the New List Prices median is $220,000. Call New List Prices "hope" and Sales Prices "reality." It looks like sellers are still fondly remembering the market bubble in the mid-2000s and are hoping for higher prices.
- To their credit, slower demand isn't panicking sellers into dropping asking prices. They realize their properties were undervalued after the bubble and are holding out for reasonable prices.

- The reality of current Sales Prices is validated by the Sales Price Forecast which is very close to June's prices. ARMLS isn't expecting any rapid, near-term price increases or decreases.

After looking at supply, demand and pricing, we can conclude that the combination of increased supply, lower demand, stable prices and overall steadiness of the market suggests that neither sellers nor buyers are in any hurry to change their behavior. Buyers have a slight edge, but not enough to get sellers to lower their asking prices.

This wraps up our look at June Valley statistics, as provided in ARMLS's excellent monthly STAT Report. You should be in a better position now to read the numbers and make your own judgments about whichever market you are in. There are no absolute answers, just different conclusions.   Please share your comments about this article and email me your ideas about other topics to discuss. I'm Ron LaMee, ronlamee@aaronline.com.